



ARIZONA STATE SENATE
Fifty-Third Legislature, First Regular Session

FINAL AMENDED
FACT SHEET FOR H.B. 2528

index exemptions; unused tax credits

Purpose

Requires the Department of Revenue (DOR) to adjust the allowable amount of personal exemptions from income tax each year according to the Metropolitan Phoenix Consumer Price Index. Repeals several income tax credits and makes conforming changes to statute.

Background

Domestic Stock Life and Disability Insurer Premium Tax Credit

Under current law, a domestic stock life or disability insurer that pays a required renewal fee is entitled to a credit in the amount of at least \$455 but not more than \$680. This credit is applicable to the premium tax owed by the insurer ([A.R.S. § 20-167](#)).

Military Reuse Zones Tax Credit

A nonrefundable credit is allowed for net increases in employment of full-time employees working in a military reuse zone, and who are primarily engaged in providing aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products. For each employee that is not a dislocated military base employee, the credit is \$500 in the first year of employment and increases in \$500 increments until it reaches \$2,500 in the fifth year of employment. For dislocated military base employees, the credit amount starts at \$1,000 in the first year of employment and increases in \$500 increments each year until it reaches \$3,000 in the fifth year of employment ([A.R.S. § 43-1079](#)). According to DOR, the individual credit has been claimed a total of six times since 1996, while the corporate credit has been claimed by seven taxpayers since its creation.

Renewable Energy Industry Tax Credit

This refundable credit is for expanding or locating qualified renewable energy operations in Arizona. The credit is up to 10 percent of the taxpayer's total capital investment in Arizona if 1.5 new full-time employment positions are created for each \$500,000 of capital investment for manufacturing operations or one new full-time employment position is created for each \$200,000 in capital investment for headquarters. For other qualifying renewable energy investment, the credit is 10 percent of \$500,000 for each 1.5 new full-time employment positions created in manufacturing operations or 10 percent of \$200,000 for each one full-time employment position created for headquarters, neither of which can exceed 10 percent of the taxpayer's total capital investment. The credit is apportioned and claimed in five equal annual installments in each of five

consecutive tax years ([A.R.S. § 43-1083.01](#)). According to DOR, the five companies have been pre-approved for this credit, but no credits have been disbursed.

Renewable Energy Investment and Production for Self-Consumption Tax Credit

This nonrefundable credit is for investment in new renewable energy facilities or for International Operations Centers that produce energy for self-consumption using renewable energy resources. The taxpayer must meet certain investment requirements in order to qualify. The amount of the credit is \$5 million per year for five years with the initial credit available in the year the facility becomes operational ([A.R.S. § 43-1083.04](#)). According to DOR, one renewable energy facility has been pre-approved for this tax credit.

Solar Hot Water Plumbing Stub Outs and Electric Vehicle Recharge Outlets Tax Credit

A nonrefundable credit is allowed for costs incurred in installing or including in one or more houses or dwelling units in Arizona and constructed by the taxpayer, one or more: 1) Solar hot water plumbing stub outs; or 2) electric vehicle recharge outlets, provided certain requirements are met. The credit cannot exceed \$75 for each installation for each separate house or dwelling unit. The credit may be transferred from the builder to the purchaser of the house or dwelling unit ([A.R.S. § 43-1090](#)). According to DOR, the corporate credit has not been claimed since 2000. The individual tax credit has been claimed roughly 10-30 times each year since its creation, but the credit had 93 claims in 2014 and 107 claims in 2015.

Solar Liquid Fuel Research and Development Tax Credit

This nonrefundable credit is for increased research activities related to solar liquid fuel. Solar liquid fuel means liquid fuel that is generated through processes that use sunlight, carbon dioxide and water to produce infrastructure compatible liquid hydrocarbon fuels. The credit is 40% of the excess of Arizona qualified research expenses for the taxable year over a base amount ([A.R.S. § 43-1085.01](#)). According to DOR, no individual or corporate tax credits of this kind have ever been claimed.

Personal Exemptions

Under current law, an individual is allowed to be exempted from income in the following amounts; 1) \$2,100 for a single individual; 2) \$4,200 for a head of household or married couple; and 3) \$6,300 for a married couple that claims at least one dependent ([A.R.S. § 43-1043](#)).

According to the Joint Legislative Budget Committee (JLBC), the fiscal impact to the state General Fund associated with this legislation would be \$3.6 million in FY 2018, \$10.2 million in FY 2019 and \$16.3 million in FY 2020. The amount of reduced revenues is expected to increase in each subsequent year that the personal exemption is increased for inflation.

Apart from tax credits with no publicly available information, elimination of the tax credits is estimated to have no impact to the state General Fund.

Provisions

1. Requires DOR to increase personal income tax exemptions in the following amounts:
 - a) \$50 for single individuals for both TY 2017 and TY 2018;
 - b) \$100 for a head of household or married couple, for both TY 2017 and TY 2018; and
 - c) \$150 for a married couple who claim at least one dependent, for both TY 2017 and TY 2018.
2. Requires DOR, effective after TY 2018, to index the allowable personal exemption according to inflation as measured by the Metropolitan Phoenix Consumer Price Index.
3. Requires DOR to terminate any tax credit that is unclaimed or not allowed to any individual or corporate taxpayer in any consecutive four-year period, and to perform the following:
 - a) issue a public announcement of the termination of the credit;
 - b) notify the Governor, the President of the Senate, the Speaker of the House of Representatives, JLBC and Legislative Council;
 - c) prepare technical tax correction legislation including the repeal of all terminated tax credits to be enacted by the next regular session of the Legislature; and
 - d) rescind the termination of the tax credit if the Legislature fails to pass the legislation.
4. Specifies that in cases where a tax credit is subject to preapproval by the Arizona Commerce Authority (ACA), DOR may not terminate the credit unless the following conditions apply:
 - a) DOR has not received any preapproval notice for the credit from the ACA; and
 - b) the credit is not claimed or allowed to any taxpayer in a consecutive four-year period.
5. Repeals the Domestic Stock Life and Disability Insurer Premium Tax Credit.
6. Repeals the Military Reuse Zone tax credit.
7. Repeals the Renewable Energy Industry tax credit.
8. Repeals the Renewable Energy Investment and Production for Self-Consumption tax credit for investments made in manufacturing facilities. *Maintains the tax credit for investments made in renewable energy for use in an international operations center.*
9. Repeals the Solar Liquid Fuel tax credit.
10. Repeals the tax credit for Solar Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets.
11. Stipulates that any carryforward for any remaining credit is not affected by the repeal of any of the tax credits.
12. Directs Legislative Council to prepare conforming legislation relating to the provisions of this Act for consideration in the Fifty-third Legislature, Second Regular Session.
13. Makes technical and conforming changes.

14. Contains a delayed effective date of January 1, 2018.
15. Stipulates that requirements relating to personal exemption index adjustments for inflation become effective on the general effective date.

Amendments Adopted by Committee

1. Retains income tax credits for Environmental Technology Facilities, Healthy Forest Enterprises and Ecological Restoration Workforce Training.
2. Retains the Environmental Technology Assistance Program under the ACA.

Amendments Adopted in Committee of the Whole

1. Outlines specific amounts for the indexing of personal income tax exemptions for TY 2017 and TY 2018, and directs DOR to index exemptions according to inflation after TY 2018.
2. Adds extra specifications for the repeal of a tax credit if the credit is subject to preapproval by the ACA.
3. Specifies that DOR must terminate a tax credit that remains unclaimed for a consecutive four-year term, rather than a two-year term.

House Action

WM	2/15/17	DP	9-0-0-0
3 rd Read	2/21/17		58-0-2
Final Read	4/26/17		38-21-1

Senate Action

FIN	3/08/17	DPA	6-0-1
3 rd Read	5/04/17		19-11-0

Signed by the Governor 5/10/17
Chapter 299

Prepared by Senate Research
May 11, 2017
FB/ZD/jn